

# EMBaby General Finance (India) Pvt Ltd

## Issuer Profile

September 2017



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## **Analytical Contacts**

### **Krishnan Sitaraman**

Senior Director – Financial Sector & Structured Finance Ratings

Email: krishnan.sitaraman@crsil.com

### **Ajit Velonie**

Director – Structured Finance & Financial Sector Ratings

Email: ajit.velonie@crsil.com

### **M Ramesh**

Associate Director – Financial Sector Ratings

Email: ramesh.m@crsil.com

### **Shailesh Sawant**

Manager – Financial Sector Ratings

Email: shailesh.sawant @crsil.com

### **Simarleen Manchanda**

Senior Executive – Financial Sector Ratings

Email: simarleen.manchanda@crsil.com

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# Ratings

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## About EGFL

EMB Baby General Finance (India) Private Limited (EGFL) a Non-Banking Financial Company (NBFC) incorporated in November 2008 based out of Kattappana, in Idukki district of Kerala mainly operates in providing loan against collateral of gold jewellery primarily to individuals having limited or no access to formal credit to meet their short term personal requirements. The promoter Mr. E.M. Baby has been operating in this business since 1966. Over the years, the company has expanded its operations in the state of Kerala with a network of 12 branches. Apart from loan against gold jewellery it also provides money transfer facilities in India, foreign inward money transfer services, encashment of foreign currencies, etc.

EGFL is the flagship company of the E.M. Baby Group which also operates into hospitality, trade-distribution, finance, industry, and money exchange. All the companies in the group are managed separately and there is no linkage of other group companies with EGFL.

As below is a snapshot of the businesses of the various companies in the group:

<b>EGFL</b>	Provides finance against gold jewellery, money transfer services, and money exchange
<b>E.M. BABY Industries</b>	The manufacturer and supplier of metal roofing and wall panels for residential, post frame, commercial, and pole barn buildings
<b>E.M. BABY Hotels &amp; Resorts</b>	Hotels and Resorts like Forest Canopy, Lake Canopy and Seethal Residency.
<b>E.M. BABY Trading Pvt Ltd</b>	A distributor for the products of ITC, Britannia and Mars.

## Factsheet

Name of Company	EMBaby General Finance (India) Pvt Ltd
Date of Incorporation	November 12, 2008
Receipt of NBFC License	July 07, 2009
Corporate Status	Private Limited Company.
Listed at	Not listed
Business of the company	Financing against gold jewellery and money transfer service
Registered and Corporate office	10/439A , Madathil Arcade , Erattayar Road, Kattappana, Idukki – 685 508 Kerala – India
Branches	12 Branches as on March 31, 2017

## Shareholding Pattern of EGFL as on March 31, 2017

Name	% of share holding
EDAVANAMADATHIL MATHAI BABY (Promoter)	37%
LIZAMMA BABY (Promoter's Wife)	32%
RAJESH BABY (Promoter's Son)	14%
RAMESH BABY (Promoter's Son)	11%
RENJI PHILIP BABY (Promoter's Son)	6%
Total	100%

## Profile of Board of Directors and Top Management

### Board of Directors as on March 31, 2017



**Edavanamadathil Mathai Baby**  
*Chairman and Managing Director*

- He has done diploma in Accounting
  - He has over 50 years of experience in Gold Business and Financing
- 



**Lizamma Baby**  
*Director*

- She has completed her BSC in Mathematics.
  - She has over 40 years of experience in Gold Business and Financing.
- 



**Rajesh Baby**  
*Director & CEO*

- He is a graduate in commerce and holds MBA degree.
  - He has 23 years of experience in Gold Business and Financing.
  - He has experience of, 10 years in wholesale distribution and of 23 years in Hospitality.
- 



**Ramesh Baby**  
*Executive Director*

- He has completed his Bachelor of Business Management (BBM).
- He has 21 years of experience in Gold Business and Financing.
- He has experience of, 10 years in wholesale distribution and of 21 years in Hospitality.

## Top Management as on March 31, 2017



**Renji Philip Baby**  
*Executive Director*

- B. Com, M. Sc – IB, IILM, Delhi (Affiliated to the University of Dublin).
  - MBA–IB from Southern University of Queensland, Australia.
  - He has experience of working with Future group company, formerly Pantaloons Retail India Ltd.
  - Executive Director, EMBaby Group of concerns.
- 



**Varghese.V**  
*General Manager*

- He is a post graduate in science from Kerala University and CAIIB. He has experience of working with the Federal Bank Ltd for around 35 years. He joined the bank as Executive Trainee and retired as Assistant General Manager.
- He worked with Muthoot Finance Ltd for three years as Regional Head before joining EGFL.



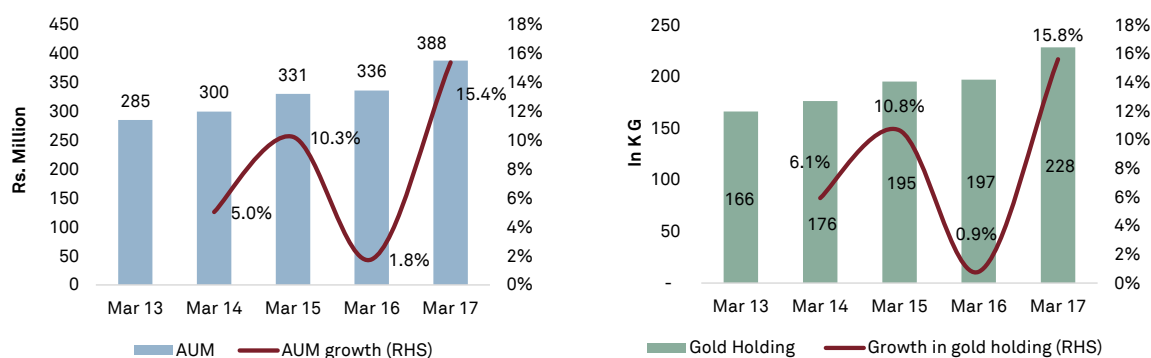
## Company Profile

### Business Profile

#### Market Position

- The promoters have been operating in the lending against gold jewellery business for more than 50 years and have good understanding of the regions and clients.
- EGFL is a small sized but a stable growing player in the lending against gold jewellery.
- The AUM, though small at Rs.388million as on March 31, 2017, increased from Rs.336 million as on March 31, 2016 (Rs 330 million as on March 31, 2015). It has grown at a 3 year CAGR of 8.9%.
- The company intends to increase its loan portfolio to Rs. 420 million by March 2018.
- The company had 12 branches as on March 31, 2017 and intends to increase its branch network to 15 branches by March 31, 2018.
- The proportion of loans above Rs.1 lakh have remained at around 14% of its portfolio over the past five year. The average loan ticket size is at around Rs.25000/-.
- The operations will remain confined to the entire state of Kerala over the medium term.
- EGFL also provides money transfer services and has tied up with various money exchange players such as U A E Exchange, Thomas Cook, Money Gram, Western Union Money Transfer, Transfast, X Pay, Express Money, Weizman Forex Ltd, M/s. Pheroze Framroze & Co Pvt. Ltd., etc.
- The company intends to enter into microfinance and other related products in future.

**Chart 1: Trend in AUM and Gold holding**

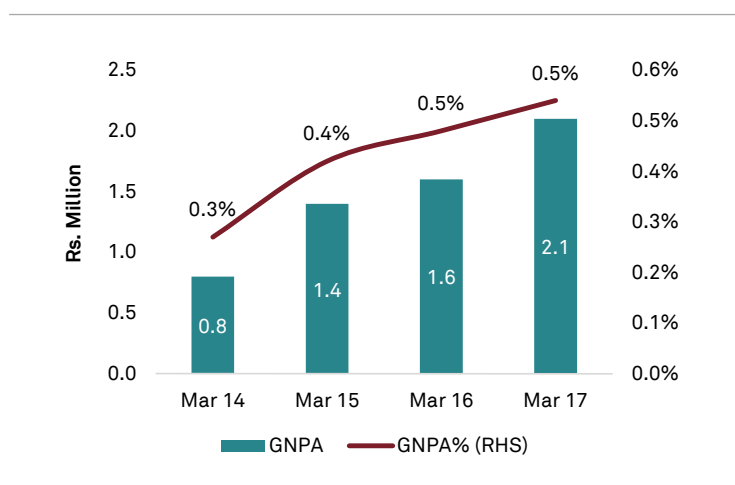


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## Asset Quality

- Asset quality has remained healthy with low gross non-performing asset (GNPA) 0.5% as on March 31, 2017.
- On account of regular follow-up for the interest and principal repayment, the company has maintained healthy asset quality.
- Interest is collected on a regular basis up to the end of the tenure. It follows up with the customer on monthly basis for the repayment of interest as well as it follows up for part payment of principal.
- The company has adequate mechanism in place to assess the purity of gold - manually as well as through machines – and arrive at loan eligibility.
- The gold ornaments are kept in fire proof vaults / Godrej safes under joint custody arrangement. The ornaments are properly insured against theft and fire.
- The company has a three member audit team which undertakes branch audit. Every branch is audited once in a week and through surprise verifications of the pledged gold jewellery.

**Chart 2: Trend in GNPA**



## Collateral Evaluation & Appraisal

- EGFL has designed appropriate assessment and methodology to evaluate the purity and weight of gold jewellery.
- Only household jewellery is accepted as collateral for the loan as there is strong personal sentiment attached with such gold ornaments.
- Employees are adequately trained in gold appraisal.
- The gold is screened by an Appraiser and it goes through the Branch Manager as well before being preserved in the safe. A diagrammatic representation is as below:



- Approved electronic weighing scale is used to weigh the gold, and nitric acid tests are conducted to assess the authenticity and quality of the contents. Other methods like appearance, mass, sound, malleability, and finishing are also used to appraise the material. Each item of a single customer is separately assessed. All the appraisal is done in the presence of the pawner.
- Gold is independently appraised by the appraiser who weighs, counts, and assess the ornaments. Entry of the ornament along with its details is made in the system which is password protected. The systems are connected to Central Office.
- The pawn ticket is prepared by the Branch Manager after verification of the ornaments and sanctioning the loan.
- The payment depends on the amount of loan sanctioned. The loan amount is either paid in cash or through transfer of money in bank account, as per the norms.
- One copy of the pawn ticket is handed over to customer, which is to be brought at the time of redemption of gold jewellery.

#### **Gold Security and Custody**

- Post verification, gold is transferred for safekeeping to a strong room or a safe. The strong room is constructed in 3 branches and all other branches use Godrej-make safe.
- Ornaments are stored in transparent pouches to facilitate quality/quantity checks.
- Joint custody is enforced at the branch level for the strong room/safe.

#### **Internal Control and Audit Process**

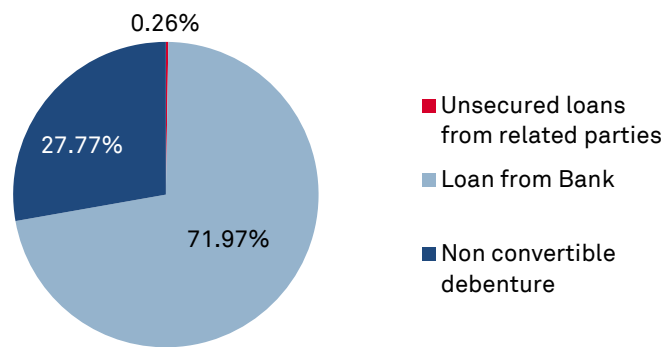
- The company has qualified trained audit staff to conduct periodic audit of branch operations.
- Termed as gold audit, it covers collateral verification - weight, count and purity, and verification of documents including KYC and cash.
- The audit involves verification of all packets and is not based on random sampling. Entire ornaments are covered at random surprise verification.
- Auditor visits every branch once in a week or at surprise intervals.
- The audit activities are reported in Auditors' register. Minutes book is prepared by the branches which includes details of the activities conducted by the auditor.
- The audit team reports to senior management. Every audit query needs to be resolved in a specific period.

# Ratings

## Resource Profile

- EGFL has modest resource profile with relationship with only one bank.
- The other funding source is the privately placed debentures, placed with close friends and relatives.
- There are around 240 debenture holders with average ticket size of around Rs.3 lakh.
- The company has raised these debentures at interest rates in the range of 10-12%.
- The management plans to increase its funding through privately placed non-convertible debentures in fiscal 2018.

**Chart 3: Resource mix as on March 31, 2017**

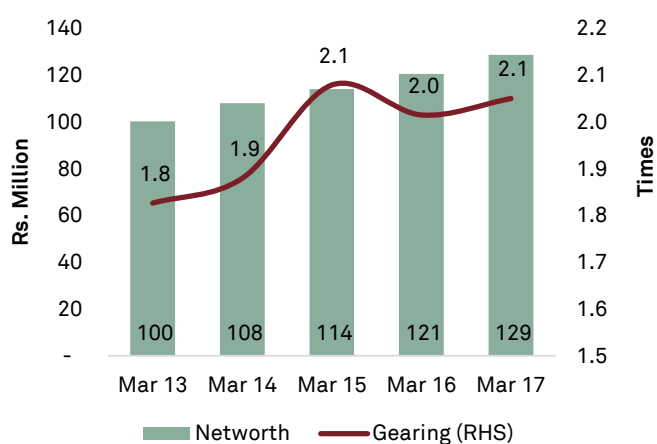


## Financial Profile

### Capitalisation

- EGFL is adequately capitalised for the expected scale of operations.
- The company has adequate net worth of Rs.129 Million as on March 31, 2017.
- Gearing remained comfortable at around 2 times for past 3 consecutive years.
- Tier I Capital Adequacy Ratio has remained above 30% over the past five years.
- The company is in discussion with investors to raise additional capital.

**Chart 4: Trend in Net worth and Gearing**

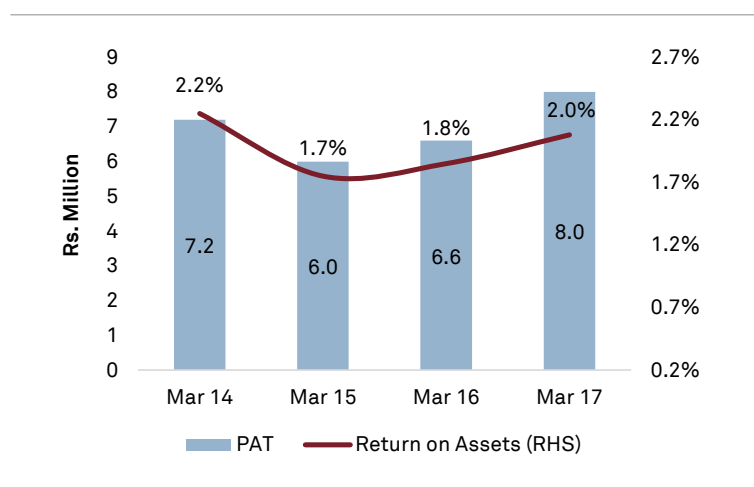


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## Earnings

- EGFL has moderate profitability largely on account of low yields charged by the company.
- Return on assets has improved to 2.0% during fiscal 2017 from 1.8% during fiscal 2016.
- The profitability has improved during the fiscal 2017 mainly on account of improvement in net interest margin and reduction in operating cost.
- Return on net worth has improved to 6.5% during fiscal 2017 from 5.6% during fiscal 2016.

**Chart 4: Trend in PAT and return on assets**



## Liquidity

- The company's liquidity is supported by comfortable collection efficiency.
- Most of the loans disbursed are collected within 5-6 months of disbursements.
- The promoters are also expected to infuse funds if required.

## Management Profile

- The promoters have more than five decades of experience in the financing against gold segment and a strong understanding of customer profile in the region they operate.
- Given the company's long track record of more than five decades originally in Idukki district and thereafter in entire state of Kerala, the company has built up good credibility among the borrowers.
- Promoters have also inducted experienced professionals with experience in banking and retail segment.

## Key Financials - EGFL

As on / For the period ended March 31		2017	2016	2015
Disbursements	Rs. Million	999	963	997
Portfolio outstanding	Rs. Million	388	336	331
Equity Share Capital	Rs. Million	89	89	89
Networth	Rs. Million	129	121	114
Total Assets	Rs. Million	414	378	361
Total Borrowings	Rs. Million	264	243	237
Interest income	Rs. Million	61.3	55.1	52.3
Other income	Rs. Million	1.4	1.4	1.0
Total income	Rs. Million	62.7	56.5	53.3
Interest Expense	Rs. Million	29.5	27.5	25.3
Operating Expenses (incl. depreciation)	Rs. Million	19.9	19.0	19.1
Provision and write off	Rs. Million	0.2	0.1	0.2
Reported PAT	Rs. Million	8.0	6.6	6.0
<b>Ratios (%)</b>				
Net interest income/Average total assets	%	8.0	7.5	7.9
Operating cost/Average total assets	%	5.0	5.1	5.6
Credit cost/Average total assets	%	0.0	0.0	0.1
PAT / Average total assets	%	2.0	1.8	1.7
PAT / Average net worth	%	6.5	5.6	5.4
Gross NPA	%	0.5	0.5	0.4
Tier I CAR	%	32.0	34.3	32.7
Total CAR	%	34.0	36.0	34.3
Gearing	Times	2.1	2.0	2.1
No of Branches	No	12	12	12
Gold Holding	In Kg	228	197	195
AUM/BRANCH	Rs Million	32.4	28.0	27.5



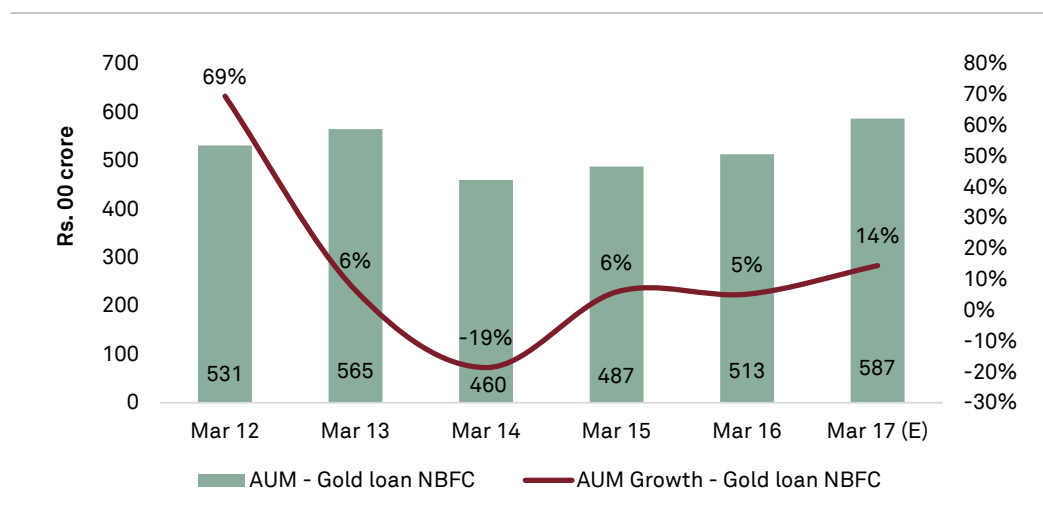
## CRISIL Industry Risk Profile – Gold Loans

### Industry growth to stabilize over the medium term, backed by established regulatory regime

A series of regulatory changes between fiscals 2012 and 2014—including withdrawing priority sector benefits for gold loans, capping LTV ratio at 75%, restricting placement of privately placed debentures by NBFCs, introducing fair practice code, and stipulating stringent norms for conducting gold auctions—have brought in some much-needed stability to the gold loan segment and helped to enhance the confidence of lenders and other stakeholders.

After subdued growth in the four years through fiscal 2016, business should gather momentum for gold loan NBFCs over the medium term. While growth in AUM should stabilise at around 15% over the next couple of years, there will be relatively sharper movements in portfolio associated with gold price volatility. Although banks may retain their two-thirds share of the gold loan market, competition for NBFCs will come mainly from small finance banks (SFBs), given their established branch network and overlapping customer base. The SFBs are expected to target both retail customers and high-ticket borrowers, mainly small businessmen, by servicing their short-term working capital requirements through gold loans at lower costs.

#### Trend in AUM of Gold Loan NBFCs



### Improved business practices to strengthen competitive position

Large NBFCs should benefit from their sizeable and established branch networks and changed business practices. Gold loan NBFCs are now focused on acquiring customers, and customer education and retention. The product suite comprises innovative schemes such as short-tenure loans, online gold loans, consumer loans, schemes for women, EMI options, loans for business people, and low-interest schemes. Customers are educated on the benefits of regular interest servicing, such as avoiding penal interest charges and auction of gold jewellery. Regular reminders for interest servicing and repayment of loans are sent to clients through text messages and tele-calling. With focus on interest collections, delinquencies and frequency of auctions have reduced. In addition, auction processes have now largely been streamlined and are generally conducted in large branches adhering to RBI guidelines.

## **Diversification in loan products to mitigate revenue concentration risks**

Gold loan NBFCs have diversified their presence in product segments such as microfinance, affordable housing, small and medium enterprise loans, and loans against property in the past three years. Product segments such as microfinance should provide scalability to business over the next few years. However, the non-gold loan portfolio may constitute only around 20% of AUMs over the next three years. Efforts are also on to widen their reach into new regions—though for most of the gold loan NBFCs, South India continues to account for over 60% of AUM.

## **Profitability and asset quality to improve further**

Profitability of the gold loan NBFCs is likely to improve with stable operating environment, focus on regular interest collections, improved asset quality, and reduction in borrowing costs. Though interest rates may remain under pressure on account of competition and moderate growth, the spreads are unlikely to decline materially, supported by moderation in interest reversals on delinquent loans and in borrowing cost. Regular interest collections and timely auction of gold collateral on delinquent loans should help keep receivables in check. Borrowing costs may reduce, backed by lower interest rates from banks. Moreover, the share of low-cost, short-term funds in the borrowing mix has been growing steadily in the 18 months ended March 2016. Focus on improving productivity at the branches should help keep impact of operating costs on profitability in check. Diversification into high-yield asset segments should support earnings at group level.

Moreover, asset quality has improved considerably over the last two years. Delinquencies are now at the lowest in recent years. Most gold loan NBFCs have implemented stringent systems and processes at every stage—from gold assessment to repayment of loan. Focus on audit and safety measures enables efficient management of operational risks. In addition, introduction of short-tenure products by some gold loan NBFCs provides flexibility to auction gold collateral within 9-12 months of lending, against 15-18 months from disbursement previously. The cap on LTV ratio at 75%, and focus on regular interest collections should help reduce delinquencies even further. Impact—of recent entry by most gold loan NBFCs into other retail loan segments, where they have limited track record—on asset quality, will constitute a key monitorable area.

## **Capitalisation to remain adequate despite diversification into other asset segments**

Steady internal accruals and moderate growth in loan portfolio should help maintain capitalisation over the medium term. Though growth rates in non-gold loan segments will be significantly higher than in the gold loan segment, gearing is unlikely to exceed 5 times over the next two years because of small size of non-gold loan segments. Capitalisation will also be supported by lower asset-side risks, given that gold collateral will remain in the possession of the lender.

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